



## INSTITUTE OF INTERNATIONAL BANKERS

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September 3, 2009

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Regulation Comments  
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Re: Comment on Proposed Interagency Guidance Regarding Funding and  
Liquidity Risk Management – Board Docket No. OP-1362; OCC Docket  
ID 2009-0009; OTS Docket ID 2009-0011

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Ladies and Gentlemen:

The Institute of International Bankers appreciates this opportunity to comment on the “Proposed Interagency Guidance – Funding and Liquidity Risk Management” (the “Proposed Guidance” or the “Proposal”).<sup>1</sup> The events of the last year demonstrate the importance of adhering to principles of sound liquidity risk management, and, in general, the Institute supports the articulation of those principles as set forth in the Proposed Guidance, and we applaud the Agencies’ efforts in bringing U.S. standards in this area generally into alignment with the “Principles for Sound Liquidity Risk Management” issued by the Basel Committee in September 2008 (the “Basel Committee Principles”).

Our comments are made from the perspective of financial institutions that are headquartered outside the United States and operate in the United States through branches/agencies and/or depository institution subsidiaries. The U.S. operations of these institutions typically play a key role in providing the institution’s dollar funding, but risk management of these activities is coordinated with the institution’s overall, global

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<sup>1</sup> 74 Fed. Reg. 32025 (July 6, 2009).



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liquidity requirements and, especially with respect to activities undertaken by U.S. branches/agencies, due account must be taken of the responsibilities exercised by the institution's head office in managing the institution's global position. Likewise, it is fundamental that supervisory oversight of these activities in the United States be undertaken with due regard to, and in consultation and coordination with the institution's home country authority.<sup>2</sup>

We do not read the Proposed Guidance as contrary to, or inconsistent with, this approach to liquidity risk management, but we believe the Proposal should be strengthened by incorporating into the guidance a more specific statement of the importance of taking these considerations into account.<sup>3</sup> In particular, it would be helpful to state with greater clarity that, with regard to internationally headquartered institutions, the Proposed Guidance applies to their U.S. operations and is not intended to prescribe standards for their non-U.S. operations, nevertheless recognizing that an understanding of the institution's global liquidity risk management strategy is necessary to properly assess its implementation in the United States.

Such clarification would be especially beneficial with respect to the statement in paragraph 21 that "[s]eparately regulated entities will need to maintain liquidity commensurate with their own risk profiles on a stand-alone basis."<sup>4</sup> Our concern is that this part of the guidance might be read as calling for the maintenance of dedicated (or "ring-fenced") amounts of liquidity in certain entities or jurisdictions, a result that would unduly restrict institutions' implementation of their overall risk management strategies. We believe the Proposal instead intends a balanced approach which enables institutions that operate in multiple jurisdictions the flexibility to deploy liquidity throughout their global network, while recognizing the importance of maintaining sufficient liquidity within their local operations, but further clarification of supervisory expectations in this regard would be very helpful, including especially with respect to the treatment of U.S. branches/agencies, which should not be viewed as "stand alone" entities for these purposes.

We also suggest further clarification of how the principles set forth with respect to liquidity risk management by "holding companies" in paragraphs 43 and 44 are intended

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<sup>2</sup> See, e.g., Principle 17 of the Basel Committee Principles.

<sup>3</sup> Footnote 5 to the Proposal (74 Fed. Reg. at 32029) encourages members of complex banking groups to take into consideration, among other factors, their legal structures (branches versus separate legal entities and operating subsidiaries) and jurisdictions in which they operate when formulating their risk management strategies. We would suggest that this point, as well as the supervisory implications that flow from it, be given greater prominence in finalizing the Proposal.

<sup>4</sup> 74 Fed. Reg. at 32041. See also paragraph 43: "[F]inancial institutions must ensure that liquidity is adequate at all levels of the organization to fully accommodate funding needs in periods of stress. This includes legal entities on a stand-alone basis, as well as the consolidated institution." 74 Fed. Reg. at 32044.



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to apply to internationally headquartered institutions. Here too we do not read the Proposed Guidance as intending to be binding on the non-U.S. operations of banks that are headquartered outside the United States which operate in accordance with liquidity risk management standards prescribed by their home country authorities (especially where those standards are themselves in alignment with the Basel Committee Principles), but it is recognized that the relevant home and host country authorities must consult on these matters and coordinate their supervisory efforts. We suggest that in finalizing the Proposed Guidance the Agencies include further discussion of the international dimension of these principles.

Finally, supervisory expectations with respect to regular testing of contingency funding plans, as discussed in paragraphs 31-39 of the Proposed Guidance, should be clarified to avoid any implication that such measures are intended to include affirmatively acting on various components of the plan (e.g., drawdowns on central bank liquidity facilities; selling less liquid assets) that would not be warranted by market conditions. We agree that institutions need to have a realistic assessment of their short term, medium term and long term counterbalancing measures to mitigate situations of liquidity shortfall and that underlying assumptions need to be reviewed and re-assessed on a regular basis as market dynamics will have an impact on the effectiveness of such measures. In this connection, however, we believe it would be appropriate to include a more specific incorporation of the recommendations set forth in paragraph 121 of the Basel Committee Principles to clarify the scope of what is intended with respect to testing.

Please contact the undersigned or the Institute's General Counsel Richard Coffman if we can provide any additional information or assistance.

Very truly yours,

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